

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

COMPETITIVE PRODUCTS PRICE CHANGES
RATES OF GENERAL APPLICABILITY

Docket No. CP2016-9

**COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION (PSA)
(November 3, 2015)**

Pursuant to Order No. 2767, the Parcel Shippers Association respectfully submits these comments on the notice of changes in rates of general applicability and of concomitant classification changes for competitive products filed by the United States Postal Service on October 16, 2015.¹ These comments make three points:

- In compliance with the PAEA,² competitive products are not being subsidized by market-dominant products. The projected FY 2016 contribution of competitive products at proposed prices is approximately three times the statutory contribution floor.
- The Postal Service should be applauded for generally proposing prices that continue to encourage worksharing and the successful “last mile” model for package delivery.
- The magnitude of the proposed price increase (23.5 percent on average) for Parcel Select Lightweight (PSLW) (including price changes as large as 49% and 66%, respectively, for many packages entered at the DSCF and DNDC) begs the question “is PSLW properly classified as competitive?”

¹ Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors’ Decision No. 15-1, (October 16, 2015) (Notice).

² See Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). The Postal Accountability and Enhancement Act (PAEA) amends various sections of title 39, United States Code. Unless otherwise noted, section references in these comments are to sections of title 39.

In compliance with the PAEA, competitive products are not being subsidized by market-dominant products. The projected FY 2016 contribution of competitive products at proposed prices is approximately three times the statutory contribution floor.

PSA does not have access to the nonpublic annex which contains the information necessary to confirm the Postal Service statement that with these price changes “each competitive product [will] cover its attributable costs (39 U.S.C. § 3633(a)(2)) and should result in competitive products as a whole complying with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7(c), requires competitive products collectively to contribute a minimum of 5.5 percent to the Postal Service's institutional costs.”³ Based upon the Commission’s findings in the FY 2014 Annual Compliance Determination (FY 2014 ACD)⁴ and the magnitude of the proposed price increases, we are confident that this is an accurate statement.

In the FY 2014 ACD, the Commission found that the percentage of institutional costs contributed by competitive products (12.6%) far exceeded the

³ Decision of the Governors of the United States Postal Service on Changes in Rates and Classes of General Applicability for Competitive Products (Governors' Decision no.15-1), p. 2 (September 17, 2015)

⁴ See, FY 2014 Annual Compliance Determination (at 71):

The principal FY 2014 findings for Competitive products are:

- Revenues, as a whole, exceeded incremental costs. Thus, Market Dominant products did not subsidize Competitive products during FY 2014, satisfying 39 U.S.C. § 3633(a)(1).
- Revenues for two products did not cover attributable costs and therefore did not comply with 39 U.S.C. § 3633(a)(2): International Money Transfer Service— Outbound and International Money Transfer Service—Inbound. The Commission orders the Postal Service to take corrective action.
- Collectively, Competitive products satisfied the Commission’s 5.5 percent minimum contribution regulatory requirement. See 39 C.F.R. § 3015.7(c). As a result, Competitive products complied with 39 U.S.C. § 3633(a)(3) during FY 2014.

required percentage (5.5%) and that each domestic competitive product covered its attributable cost. *Id.* at 71. The Postal Service projects that the FY 2016 contribution from competitive products, assuming a January 17, 2016, price implementation will be 15.8% (about three times the 5.5% contribution floor); and would be 17.0% if the price increases were in effect for all of FY 2016.⁵

The average price increase proposed for competitive products as a whole is 9.5%. http://about.usps.com/news/national-releases/2015/pr15_056.htm. In the period since that covered by the FY 2014 ACD, inflation has been minimal, suggesting that the costs for competitive products as a whole have increased far less than the price increases proposed in the Notice. As a result, we are comfortable the new prices and classification changes will be in accordance with sections 3632-3633 and 39 C.F.R. § 3015.2 for Fiscal Year 2016.

The Postal Service should be applauded for generally proposing prices that continue to encourage worksharing and the successful “last mile” model for package delivery.

PSA is a strong proponent of the Postal Service using pricing signals to encourage partnerships with the private sector. Such signals have fostered the successful “last mile” model for packages.⁶ Accordingly, we applaud the Postal Service for increasing the difference in price between entering Parcel Select (including PSLW) at the destination delivery (DDU) and at the destination sectional center facility (DSCF).

⁵ See Notice of the United States Postal Service of Changes in Rates of General Applicability for Competitive Products Established in Governors’ Decision No. 15-1 (October 16, 2015), Competitive Jan FY16, REDACTED Annex Jan – Public.xls

⁶ PSA has suggested that the successful “last mile” model for package delivery be expanded to other postal services. See *Parcel Shippers Association Comments on the Thought Leader Proposal submitted to the National Academy on Public Administration*, February 18, 2013.

Proposed Increase in DDU Discount (Relative to DSCF Entry)

Weight	Current Price			Proposed Price			Increase in DDU Discount
	DDU	DSCF*	Discount	DDU	DSCF*	Discount	
Parcel Select Ltwt							
8 Ounce	\$1.22	\$1.36	\$0.14	\$1.30	\$1.57	\$0.27	93%
12 Ounce	\$1.39	\$1.60	\$0.21	\$1.51	\$1.86	\$0.35	67%
Parcel Select							
2 Pounds	\$2.51	\$3.45	\$0.94	\$2.66	\$3.63	\$0.97	3%
5 Pounds	\$2.71	\$3.87	\$1.16	\$2.83	\$4.05	\$1.22	5%

*Parcel Select LW Rate for 5-Digit Machinable parcel

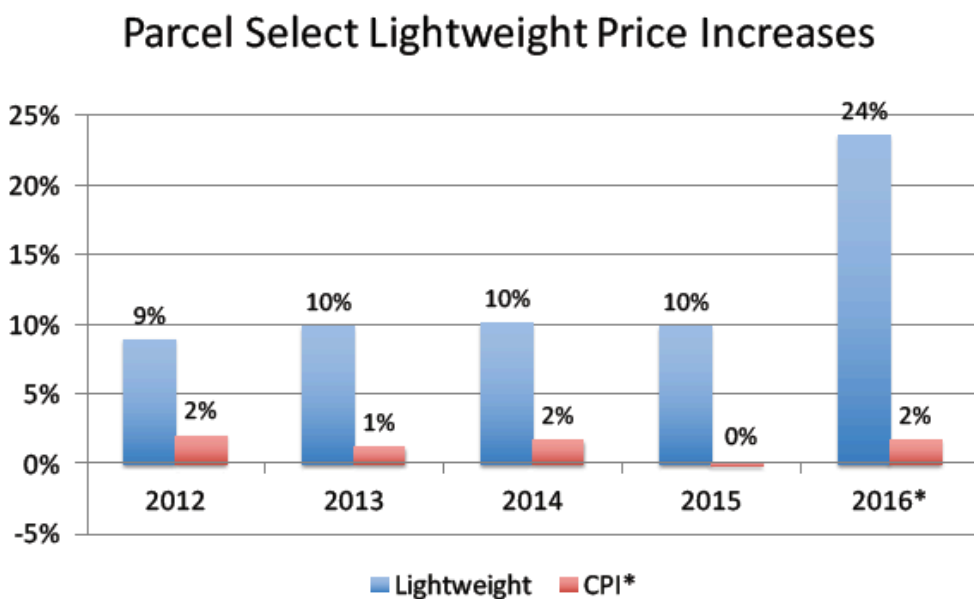
On the other hand, some of the price differences between PSLW DDU entry, a last-mile product, and First-Class Package Service, an end-to-end product, converge, making the latter relatively more attractive. This is a step in the wrong direction.

Proposed Change in Price Difference between First-Class Package Service and Parcel Select Ltwt DDU

Weight (Ozs.)	Current Price			Proposed Price			Change in Price Difference
	FCPS	PSLW DDU	Difference	FCPS	PSLW DDU	Difference	
4	\$2.13	\$1.10	\$1.03	\$2.60	\$1.30	\$1.30	26.2%
5	\$2.22	\$1.13	\$1.09	\$2.60	\$1.30	\$1.30	19.3%
6	\$2.35	\$1.16	\$1.19	\$2.60	\$1.30	\$1.30	9.2%
7	\$2.53	\$1.19	\$1.34	\$2.60	\$1.30	\$1.30	-3.0%
8	\$2.71	\$1.22	\$1.49	\$2.60	\$1.30	\$1.30	-12.8%
9	\$2.89	\$1.26	\$1.63	\$3.30	\$1.51	\$1.79	9.8%
10	\$3.07	\$1.30	\$1.77	\$3.35	\$1.51	\$1.84	4.0%
11	\$3.25	\$1.34	\$1.91	\$3.40	\$1.51	\$1.89	-1.0%
12	\$3.44	\$1.39	\$2.05	\$3.45	\$1.51	\$1.94	-5.4%
13	\$3.63	\$1.44	\$2.19	\$3.50	\$1.72	\$1.78	-18.7%
14	\$4.05	\$1.49	\$2.56	\$3.55	\$1.72	\$1.83	-28.5%
15	\$4.05	\$1.55	\$2.50	\$3.60	\$1.72	\$1.88	-24.8%
16	\$4.05	\$1.61	\$2.44	\$3.65	\$1.72	\$1.93	-20.9%

The magnitude of the proposed price increase (23.5 percent on average) for Parcel Select Lightweight (PSLW) (including price changes as large as 49% and 66%, respectively, for many packages entered at the DSCF and DNDC) begs the question “is PSLW properly classified as competitive?”

A troubling aspect of these proposed prices is the large average increase proposed for one of the Postal Service’s most popular products—Parcel Select Lightweight. PSLW is the Postal Service’s bulk ground shipping product for packages weighing less than one pound. It is widely used by mail order merchants to fulfill consumer orders. While volume history for the product is not publicly available, PSA members using this product report increased usage and we are confident PSLW volumes have been increasing, along with volumes for the rest of the Parcel Select product family.



*Federal Reserve Board 2016 Inflation Projection (Median)

Originally a market dominant product as a subset of Standard Mail Parcels, upon request of the Postal Service the product was transferred and reclassified as a

competitive product by order the Commission in 2011. See Docket No. MC2010-36; Order No. 689.

Based on representations of the Postal Service and applying section 3642(b)(1) the Commission there determined the Standard Mail product was not properly categorized as market-dominant. Section 3642(b)(1) provides:

The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.

In making its determination the Commission noted the Postal Service contended:

. . . that it does not have a market dominant position in the market segment of commercial bulk lightweight parcels. According to the Postal Service, it does not exercise sufficient market power that the Postal Service can raise prices significantly, or decrease quality or output, without risk of losing a significant level of business to other firms offering similar products.

Order No. 689 at 6-7. Accepting Postal Service representations, the Commission concluded, “[t]he Postal Service has amply demonstrated there is at least a risk of losing a substantial amount of business if its rates are raised significantly or if it alters its service.” *Id.* at 16.

Recent trends strongly suggest that this conclusion has not been borne out. PSLW volumes have grown substantially in recent years despite the Postal Service imposing substantial price increases each year. Apparently spurred on by these trends, the Postal Service proposes to raise PSLW prices by 23.5 percent in this proceeding. Raising rates by more than 20 percent is not the behavior one would associate with a firm worried about losing a substantial level of business to a competitor.

PSA further believes that the Postal Service will continue to exercise substantial

market power over this product as the PSLW cost coverage increases because delivery of under-one-pound packages, particularly to residential and rural areas, plays to the unique strengths of the Postal Service network.

In support of its Docket No. MC2010-36 determination, the Commission also noted that the transfer would benefit PSLW shippers by offering them the possibility of entering into contact pricing arrangements (negotiated service agreements), stating

[The Postal Service] further states that at least one of the 10 largest customers for Standard Mail Parcels supports the transfer because it offers the possibility of entering into contract pricing for the product. *Id.* Two other customers among the ten largest customers for commercial Standard Mail Parcels have expressed similar support.

Order No. 689 at 16. The Commission went on to write:

There is also evidence that the transfer will provide desired advantages by simplifying the contractual arrangements for parcels across all weights and thereby enhance the Postal Service's ability to compete in the Parcel Select market. . . . Transfer of these parcels to the competitive product list and pricing them to recover costs would provide better opportunity for favorable NSAs.

Ibid. But, discussion in the industry suggests that more than four years after the product transfer was approved, the Postal Service may have yet to enter into its first Parcel Select Lightweight negotiated service agreement.

We could go on, but experience suggests that with respect to Parcel Select Lightweight, "the Postal Service exercises sufficient market power that it can . . . raise prices significantly, without risk of losing a significant level of business to other firms offering similar products." Further, it appears that its market power is such that there is no need for it to negotiate prices with its customers to compete.

It may be time to reexamine whether the Parcel Select Lightweight product belongs in the competitive product category.

Respectfully Submitted,

/S/

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